INTRODUCTORY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 16 July 2020

Jump to the transcript of the questions and answers

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today’s meeting of the Governing Council, which was also attended by the Commission Executive Vice-President, Mr Dombrovskis.

Incoming information since our last monetary policy meeting in early June signals a resumption of euro area economic activity, although the level of activity remains well below the levels prevailing before the coronavirus (COVID-19) pandemic and the outlook remains highly uncertain. Both high-frequency and survey indicators bottomed out in April and showed a significant, though uneven and partial, recovery in May and June, alongside the ongoing containment of the virus and the associated easing of the lockdown measures. At the same time, actual and expected job and income losses and the exceptionally elevated uncertainty about the evolution of the pandemic and the economic outlook continue to weigh on consumer spending and business investment. Headline inflation is being dampened by lower energy prices and price pressures are expected to remain very subdued on account of the sharp decline in real GDP growth and the associated significant increase in economic slack.

Against this background, ample monetary stimulus remains necessary to support the economic recovery and to safeguard medium-term price stability. Therefore, we decided to reconfirm our very accommodative monetary policy stance.

We will keep the key ECB interest rates unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

We will continue our purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,350 billion. These purchases contribute to easing the overall monetary policy stance, thereby helping to offset the pandemic-related downward shift in the projected path of inflation. The purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. This allows us to effectively stave off risks to the smooth transmission of monetary policy. We will conduct net asset purchases under the PEPP until at least the end of June 2021 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over. We will reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2022. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Net purchases under our asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope until the end of the year. We continue to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates. We intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

We will also continue to provide ample liquidity through our refinancing operations. In particular, the latest operation in the third series of targeted longer-term refinancing operations (TLTRO III) has registered a very high take-up of funds, supporting bank lending to firms and households.

The monetary policy measures that we have taken since early March are providing crucial support to underpin the recovery of the euro area economy and to safeguard medium-term price stability. In particular, they support liquidity and funding conditions in the economy, help to sustain the flow of credit to households and firms, and contribute to maintaining favourable financing conditions for all sectors and jurisdictions. At the same time, in the current environment of elevated uncertainty and significant economic slack, the Governing Council remains fully committed to doing everything necessary within its mandate to support all citizens of the euro area through this extremely challenging time. This applies first and foremost to our role in ensuring that our monetary policy is transmitted to all parts of the economy and to all jurisdictions in the pursuit of our price stability mandate. The Governing Council, therefore, continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Incoming data and survey results suggest that economic activity improved significantly in May and June from its trough in April, alongside the ongoing containment of the virus and the associated easing of the lockdown measures. At the same time, economic indicators remain well below the levels recorded before the pandemic, and the recovery is in its early stages and remains uneven across sectors and jurisdictions. After decreasing by 3.6%, quarter on quarter, in the first quarter of 2020, euro area real GDP is expected to have contracted even further overall in the second quarter, broadly in line with the June 2020 Eurosystem staff macroeconomic projections. Signs of a recovery in consumption have emerged, while there has also been a significant rebound in industrial output. At the same time, subdued labour market conditions and precautionary household saving are weighing on consumer spending. Weak business prospects and high uncertainty are dampening investment, while the weakness in the global economy is hampering foreign demand for euro area goods and services.

Euro area activity is expected to rebound in the third quarter as the containment measures are eased further, supported by favourable financing conditions, an expansionary fiscal stance and a resumption in global activity, although uncertainty about the overall speed and scale of the rebound remains high. In general, the extent of the contraction and the recovery will depend crucially on the duration and effectiveness of the containment measures, the success of policies to mitigate the adverse impact on incomes and employment, and the extent to which supply capacity and domestic demand are permanently affected. Overall, the Governing Council assesses the balance of risks to the euro area growth outlook to remain on the downside.

According to Eurostat's flash estimate, euro area annual HICP inflation increased to 0.3% in June, from 0.1% in May, mainly reflecting less negative energy price inflation. On the basis of current and futures prices for oil and taking into account the temporary reduction in the German VAT rate, headline inflation is likely to decline again in the coming months before picking up in early 2021. Over the medium term, weaker demand will put downward pressure on inflation, which will be only partially offset by upward pressures related to supply constraints. Market-based indicators of longer-term inflation expectations have continued to increase from the historical lows reached in mid-March, but overall remain at subdued levels. While survey-based indicators of inflation expectations have declined since the start of the pandemic, longer-term expectations have been less affected than short and medium-term expectations.

Turning to the **monetary analysis**, broad money (M3) growth increased to 8.9% in May 2020, from 8.2% in April. Strong money growth reflects bank credit creation, which continues to be driven to a large extent by the acute liquidity needs in the economy. Moreover, high economic uncertainty is triggering a shift towards money holdings for precautionary reasons. In this environment, the narrow monetary aggregate M1, encompassing the most liquid forms of money, continues to be the main contributor to broad money growth.

Developments in loans to the private sector continued to be shaped by the impact of the coronavirus on economic activity. The annual growth rate of loans to non-financial corporations rose further to 7.3% in May 2020, from 6.6% in April, reflecting firms' need to finance their ongoing expenditures and working capital in the context of still anaemic revenues. At the same time, the annual growth rate of loans to households remained unchanged at 3.0% in May, after declining for two consecutive months, amid ongoing constraints on consumption.

The results of the euro area bank lending survey for the second quarter of 2020 provide further insights into these developments. With regard to firms, they show a continued strong upward impact of the pandemic on demand for loans, largely driven by emergency liquidity needs, while financing needs for fixed investment declined. Credit standards on loans to firms remained broadly unchanged. The tightening impact of the deterioration in the economic outlook and the associated decline in the creditworthiness of firms was broadly offset by the easing effects of policy measures, particularly the ECB's liquidity-support measures and government guarantees on loans. However, looking ahead, banks expect a net tightening of credit standards on loans to firms, in part related to the expected end of the state guarantee schemes. With regard to loans to households, credit standards tightened, reflecting in particular a deterioration in households' income and employment prospects in the context of the pandemic.

Overall, our policy measures, together with the measures adopted by national governments and European institutions, will continue to support access to financing, including for those most affected by the ramifications of the pandemic.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is necessary for the robust convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **fiscal policies**, an ambitious and coordinated fiscal stance remains critical, in view of the sharp contraction in the euro area economy. Measures taken in response to the pandemic emergency should as much as possible be targeted and temporary in nature. The three safety nets endorsed by the European Council for workers, businesses and sovereigns, amounting to a package worth €540 billion, provide important funding support in this context. At the same time, the Governing Council urges further strong and timely efforts to prepare and support the recovery. We therefore strongly welcome the European Commission’s Next Generation EU proposal, which is dedicated to supporting the regions and sectors hardest hit by the pandemic, to strengthening the Single Market and to building a lasting and prosperous recovery. It is important for the European leaders to quickly agree on an ambitious package.

In order to reach its full potential, the European Union’s Recovery and Resilience Facility will need to be firmly rooted in sound **structural policies** conceived and implemented at the national level. Well-designed structural policies could contribute to a faster, stronger and more uniform recovery from the crisis, thereby supporting the effectiveness of monetary policy in the euro area. Targeted structural policies are particularly important to rejuvenate our economies, with a focus on accelerating investment in priority areas such as the green and digital transitions.

We are now ready to take your questions.

* * *

My first question would be on what your response is to those who are suggesting that the full envelope of the PEPP might actually not be needed and that you perhaps could spare some of the money.

The second question is: there is a lot of talk also about the potential for a two-speed recovery in the Eurozone, with countries like Germany doing better than countries worst affected by the pandemic. Is that a concern to you as well and how can we prevent that?

Lagarde: Your first question on the PEPP as to whether it will be used in full or not, let me first of all remind you that the PEPP has a dual function and has had that function ever since inception. It was really in the birth certificate of PEPP on day one. The first function is to address the risk of market fragmentation and impairment to monetary policy transmission. The second function is to ease the monetary policy stance in light of the contraction that resulted from COVID-19. In addition to the dual function, the PEPP is also marked by flexibility, which is one of its key elements, and we have made full use of it. We have frontloaded purchases. Just to remind you, we have purchased over €360 billion in the first couple of months. That was at the end of June, effectively, and we will make use of that flexibility.

As some of you have noted, we have slowed down a little bit the pace of purchases because financial markets have been more stable, because the fragmentation risk has really significantly been reduced. But having said that, the overall envelope and the horizon of PEPP were calibrated in order to meet both functions. Therefore – and we don't see it for the moment, frankly – but unless there were significant upside surprises, our baseline remains that we will use the entire envelope of the PEPP. If there were those very significant upsides then we shall see, but this is not what is in the cards at the moment. Clearly, the second function of the PEPP that I have mentioned, – which is the monetary stance in order to respond to the shock of coronavirus – is still around. We still need to address that, so we will continue to use the envelope of the PEPP and make sure that it helps us to get back to the trajectory of inflation pace pre-COVID-19.

Your second question has to do with this risk of a two-speed recovery. Before COVID-19 hit all of us, there was already a divergence and a degree of divergence among the euro area member states. Clearly, facing the COVID-19, there is a risk that that divergence persists. And it should by all means be avoided, which is why we together with all members of the Governing Council strongly welcome the RRF – the Recovery and Resilience Facility – which is precisely intended to address those countries and help those countries that have been most hit and most severely hit by COVID-19. Not only that, but also which is intended to invest in those sectors of the economies and in those developments that will actually be transformational and hopefully will be so on a pan-European basis, thereby reducing hopefully the degree of divergence that we had observed in the first place.

Did you discuss any change in your policy stance? I'm particularly interested in the tiering multiplier given that your own measures have significantly increased excess liquidity. Why did you not increase the tiering multiplier?

Second question is: how does the surge in infections in the United States impact your assessment of the economy? It appears that the pandemic will be more protracted in the world's biggest economy, which surely has an impact for everybody else. Are you still comfortable with your baseline scenario, or do you see growing risks to that?

Lagarde: During this meeting of the Governing Council, we really spent a good deal of time looking at the economic circumstances, looking at the macroeconomic numbers, looking at the developments as we saw them in order to evaluate our monetary policy tools and how effective and adequate they were. Really, seeing the developments in the economy, we really felt that we were in a good place at the moment. May I remind you that since last June, we have significantly expanded the PEPP. We have extended it. We have better defined the reinvestment policy. We have had a major, major take-up of the TLTRO. Clearly, those two components, added to the whole rest of the monetary policies that we have in place, tell us that it's effective, it's adequate and it is working.

Now, you mentioned the tiering system. Our experience with the two-tier system has been very positive. It is working as intended; namely to preserve the accommodative impact of our negative interest rate policy while alleviating its direct side effect for banks. It has also encouraged additional borrowing and lending activity in the inter-bank money market, including cross border, which is a sign of defragmentation that we welcome. Clearly, both the multiplier and the remuneration rate on exempt allowances can be changed over time. But we don't see at the moment any particular reason for doing so. Actually we have not discussed that because we don't see, in the monitoring that we do very carefully, a need to revisit. That's for your tiering multiplier question.

On the growth outlook and whether the developments that we are seeing are a concern; of course it is a concern. It's a concern for the livelihood of people, it's a concern for the life of people and it's a concern for policies that should all be geared at helping people. In terms of impact on our own forecasts and our own scenarios, clearly we have taken into account the environment in which the euro area operates. We have taken into account the potential risk of a second wave and the measures that would be taken as a result of that. So in that context you can rest assured that the scenarios that we had and the baseline that we have retained back in June actually do take those elements into account. We very much hope that there will be more improvement than worsening of what we had anticipated.

I have two questions. The first, in a way, is still related to PEPP. As you said, the financial markets are more stable. How stable are they? What is your assessment of stability risk, fragmentation and spreads at the moment?

My second question is related to the banking system, and you mentioned the TLTRO III with a high take-up. But in spite of everything that's been done for the banks and the SSM temporary measures on capital and operational relief and your softer collateral rules, banks see – as you mentioned – a net tightening coming up. What is the ECB prepared to do in order to prevent tightening? There is no room for tightening because you mentioned that the uncertainty is still high and risks are tilted to the downside.

Lagarde: On your first question, ever since we've begun implementing the PEPP back in March – and even more so since June –euro area financial market sentiment has improved, although financial conditions remain still tighter than before the outbreak of the COVID-19 crisis. Since the announcement itself, the sovereign and corporate bond yield spreads have narrowed. Corporate bond issuance has picked up and equity prices have increased. Overall you have really a significant improvement. Compared with the time of the PEPP announcement, euro investment grade corporate spreads declined by more than 80 basis points, while high-yield spreads declined by more than 250 basis points. We see significant improvement, but having said that, we are not exactly back to where we were before the pandemic started. For example, government bond yields are still higher in most jurisdictions than before the outbreak of the pandemic. This is highly relevant from a monetary policy stance perspective because sovereign yields are the basis of the pricing of other financial products and loans to businesses and to households. So we are very attentive to those numbers as well.

Now, your second question had to do with TLTRO. First of all, I would like to observe that TLTRO has been a great, great success. We have had, as you know, an intake north of €1.3 trillion, which is way above market expectations. We ask ourselves: why is it so successful? Clearly, it has to do with the attractive terms under which TLTRO was offered. Second, it was also successful because there was clearly a demand, and third, it was successful because there was no stigma associated with using the TLTRO. Overall you had three good reasons for that programme to be extremely successful. Now, the second question that we asked ourselves during the Governing Council is: what did we want to do with TLTRO? Well, clearly what we wanted was to encourage banks to continue supporting the economy, to continue extending financing to both firms and households. What we are seeing in terms of increase of lending to firms and stabilisation and slight increase of lending to households, is comforting because there is a significant increase. Just to give you an example: in the last three months, lending to firms has been in the range of €250 billion, which is the largest take-up ever in a period of three months.

TLTRO was vastly successful because of the conditions under which it was granted. It seems to have met the purpose that we assigned to it. We will determine at the end, in September '21, when we actually account for the lending and we compare that with the benchmark that had been agreed, whether there was in fact a significant and at least maintained lending to the economy, and the favourable terms and conditions of 50 basis points lower than the DFR, whether that rate will be available to banks. That's the attractiveness of it, but it was with conditions. Now, do we see a risk of tightening? This is something which is mentioned in the Bank Lending Survey that was just recently published. I think it's fair to say that the banks are anticipating a net tightening on the back of what has been a clear loosening of credit terms before that. I think we have to take that factor into account. Second, we also believe that this anticipation by the banks is clearly related to maybe the fear of a cliff effect in case the guarantee schemes that have been extended by governments to banks were to expire.

In that vein and on that page, I would like to mention that the Commission, as you know, has recently published some best practices and guidelines to implement those guarantee schemes. From our perspective we encourage, certainly, fiscal authorities to look at it and to make sure that they can avoid that cliff effect and they can manage sufficient of a phasing out so that we can avoid the cliff effect that would lead to potential tightening.

What could be the consequences for the European economy and the ECB if the resistance of the frugal four weakens the European recovery plan?

Do you understand the concerns regarding to the plan and the conditions?

Lagarde: Our assumption, given what we read, what we know, what we discuss with colleagues in the Commission and other players, our assumption is that the RRF – the Recovery and Resilience Facility – will come about and will be a strong mixture of grants on the one hand and in larger proportion than loans on the other hand. Certainly there are strong expectations for the purposes that I have indicated before, which have to do with addressing the damage caused to those countries and those sectors that have been massively hurt. Second, moving forward, common schemes and European goods that would be the greening and the digitising of our economies. Clearly, everybody has their agenda. It's hardly surprising that in any of these European important projects, game-changers in many ways, that the concerns of each and every member are taken into account, are identified and that the negotiation process that no doubt will take place will try to address that. Certainly from our perspective, we very much hope that the RRF in the amount of €750 billion that comes on the top of the €540 billion associated with the three programmes already decided and approved by the European Council, will come to support the recovery and to look into the future with a view to greening and digitalising the European economies.

On the PEPP there have been several different statements from your colleagues on the importance of a capital key in the programme. Did you discuss this topic in the Governing Council? If so, what's the view on how far you can deviate from the capital key and how quickly you should converge back to it?

Then a second question, if I may, on your strategy review: has the pandemic changed the scope of the strategy review in any way, and particularly your work on measures of inflation and the interpretation of the mandate? Do you think that the results in the middle of next year are still feasible?

Lagarde: Concerning the PEPP, as I mentioned earlier on, one of the key elements of the PEPP which differentiates it from other purchase programmes is flexibility. Frankly, flexibility has served us extremely well. It's flexibility across time: you can frontload, you can slow down, you can re-accelerate.

It's flexibility across asset classes: as you know, we've extended the assets that we purchase. It's flexibility across jurisdictions, and that touches on the capital key that you've just mentioned. Capital keys are the benchmark, but clearly in the name of flexibility and in order to be effective, efficient, proportional, we can deviate. There has been deviation, as you have observed from the published numbers that we released recently. Countries like Italy, Germany to a lesser extent, Portugal a little bit, are north of their capital keys. France is below, so deviation is part of the flexibility principle that we apply. As we've said, the capital keys are the benchmarks. Flexibility is the key principle that distinguishes the PEPP from the others. We will never let capital key convergence that will take place at some stage impair the efficiency of the monetary policy that we have to deploy, with the dual function that I have mentioned earlier on.

Now, concerning the strategy review, we had a discussion on that on the occasion of our Governing Council, and it is clear that the strategy review has to resume shortly. It will be in September that we have our first meetings and review and discussions. Will we finish by mid-2021? I am not sure. I would probably say second half of 2021, because there's an awful lot of work that needs to be done. As you have hinted, the pandemic crisis that we've gone through and the impact that it will have on our economy, on inflation dynamics, and on lots of other matters that will be discussed during the course of the strategy review, will have to be taken into account. This is something that we have resolved around the Governing Council table: to take into account the learnings from the pandemic in our strategy review. Another item that we decided as well was to have a whole session that will be dedicated to climate change and a whole session that will be dedicated to financial stability. We had bundled these two in the first place, and both the Vice President and myself are very happy that they form two separate items that will give rise to two sets of publications and measurements of impact and relationship between monetary policy and those two items.

Two questions, if I may. The first is, you've talked a bit about cliff edge effects in bank lending, but I was wondering if you're worried about the same thing when it comes to other types of government support programme like Income Support, *Kurzarbeit* here in Germany.

The second question is about the European Summit this week: what signal will it send if leaders fail to agree on the recovery programme this week?

Lagarde: I'll start with the second part of your question. It gives me a chance to actually wish the very, very best of luck, determination and high spirit of cooperation to our colleagues and friends that will meet at the time of the European Council. To the President of the European Council, President of the European Commission, and obviously the German presidency, I say: you are carrying a lot of hopes and expectations and we hope that you succeed. The Vice President and I have been long veterans of endless European meetings. It's often the case that in Brussels, things take time and negotiations consume a lot of that time and a lot of energy. My sense is that a very large number of leaders are perfectly aware of the importance of not wasting time and of being able to signal to the Europeans, signal to the investors, signal to the world, that there is a level of consensus and a determination to invest together, to recover together and to support each other. That will be demonstrated by a good agreement, an ambitious agreement that would come about relatively soon. I said to colleagues at the Eurogroup that it had to be fast, flexible but large as well – and I would certainly stand by those three adjectives.

The sound is not ideal so I did not understand the first part of your question. You were worried about the cliff effect of some of the various employment and unemployment schemes that exist around Europe. It is the same concern that I have expressed in relation to the guarantee schemes. Hopefully fiscal authorities, governments will take it to heart to phase out gradually as the recovery takes root because clearly, we are in a timing dilemma where you really want to sustain the economy, support it, and at the same time encourage its pick-up. Hopefully the furlough schemes, the unemployment schemes, the part-time schemes that have been put in place will not stop short of the recovery having already taken hold. That would be ideal, yes.

Have you made a first assessment of the effectiveness of the measures that you have taken since the beginning of the pandemic? Is there evidence that the liquidity you provide to euro area banks reaches its destination: businesses and households?

The second question is: would your measures have been more effective if they had been backed by bold fiscal policies at the EU level that we have not seen even if we seem to be on the verge of a new pandemic wave?

Lagarde: Yes, we are measuring the effectiveness, the efficiency of our measures on a very regular basis and we have on the occasion of this Governing Council. You have to bear in mind that monetary policy measures take always a bit of time to work their way into the economy. It doesn't work overnight so it takes a bit of time to transmit. We have to also be patient with that. Having said that, we are already seeing signs of the effectiveness because clearly, one of our determinations is to help support the flow of credit to the economy, to households, to families, to businesses, and to help funding those conditions in all parts of the economy. What we are seeing is that overall financial conditions have eased from the tightest levels that we had seen after the COVID-19 crisis. That is thanks in a large part to the comprehensive monetary policy measures that we have taken. Now, clearly we are not back exactly to where we were before COVID-19 started to hit our radar screen and then affected all of us very severely. But there has been significant improvement.

If you look at the bank lending to firms – which is a good indicator – it has increased. From March to June, as I said, the corporate take-up of lending was unprecedented: €250 billion. We’ve never seen such a high amount, and this brought the annual growth rate of loans to firms to 7.3% in May, which is up from the cruising level that we observed in February, which was 3%. Now, with regard to lending to families the monthly change in May returned to the pre-COVID levels after having been much lower for a couple of months. The other characteristics which tell us that our monetary policy is working is that, contrary to what happened in 2008-2009, banks have taken comfort from the monetary policies that we decided, and from the governments' guarantee schemes that were put in place, not to reflect the shock to the economy in the terms and conditions of their lending. There was not the kind of tightening that was observed back in 2008-2009 at the time of the great financial crisis.

Final point, and that's really based on more modelling than empirical data, our measures are providing critical support to growth and inflation. Based on our measurements, we estimate that the measures that we have announced between March and June are estimated to add around 1.3 percentage points to euro area real GDP growth until the end of 2022 and 0.8 percentage points to annual inflation over the same period of time. So our conclusion is that based on observations of stabilisation, of reduced tightening, of improvement in the lending terms and conditions and the increase of it all, and based on our modelling of the impact of our measures, we believe that what we are doing is effective and efficient.

You had a second question. Well, I would say that first of all, what we have done has actually worked – and a lot was actually done, if you look at the entire panoply of tools that we have used. It is clear that, had there been more pan-euro area fiscal measures, it might have been even more efficient. But let me observe that both at the national level and at the regional level, meaning at the euro area level, there were fiscal measures that were taken quite rapidly. The fiscal measures amounted to roughly 4% of European GDP. That's not including the guarantee schemes that had another roughly 20%. The €540 billion are the three schemes that were put in place at the European level for employees in terms of unemployment, for companies in terms of additional guarantees, and for sovereigns at the ESM. Those are also good fiscal measures that are available and some of which are already taken up, but that will clearly add to the monetary arm that we have deployed full-fledged.

Several economists have recently warned about the risk of a wave of defaults and possible banking crisis. How worried are you about that?

My second question is about communication: in the public communication you have very much emphasised the ECB's primary mandate on price stability. But for many people, it seems to be difficult to understand why the ECB is using trillions of euros to raise the inflation rate by a decimal place, 0.x%. Why are you not talking more about the secondary mandate of the ECB, which also includes full employment?

Lagarde: On your first question, it is clear that we have to be very attentive and we have to monitor very carefully this cliff risk that I mentioned earlier on, and that the link between weak corporates and banks has to be attentively monitored, too. Let me observe that banks are much better capitalised now. At the end of 2019, euro area’s biggest banks reached capital ratios of 14.8% versus 10.4% in 2010, so they are stronger. The capital position results in a total excess capital of three percentage points; that is also called the management buffer, when considering all capital requirements including Pillar 2 guidance, demonstrating an overall strong ability to cope with unfavourable adverse circumstances. As you know, combined with our monetary policy measures announced since March, there have also been a number of measures that were decided by the Supervisory Board of the SSM that have actually encouraged banks to use some of those buffers and to respond to the current crisis in order to adjust and in order to continue to support the economy. As I said, it's going to be a question of phasing out and making sure that that support lasts long enough so that the recovery takes hold and root, and can then pick up speed and help companies restore their activity and continue to develop the creation of value.

As to the mandate, it is in the articles of the ECB, it is in the Treaty, that the ECB has a primary mandate – and it's different from the Fed in that respect. So our primary mandate is price stability. The ECB is an institution that needs to conform to its primary mandate of price stability. Now, how do you measure price stability? That was decided by a strategy review that took place back in 2003, which decided that the best measurement was close to but below 2% inflation measurement in order to determine whether or not that mandate of price stability was satisfied. It's certainly one of the issues that we will be reviewing and discussing on the occasion of our strategy review, which is yet to come. But, I agree with you that it's a difficult thing to communicate to our colleagues, our compatriots and to the Europeans at large. Why does it matter so much? Well, it matters so much because if there is no price stability, then clearly the economies cannot function in a sustainable, in a solid way. Whether you look at the corporates, whether you look at families, whether you look at governments, price stability is a key element in order to actually decide to invest, decide to employ, decide to enter into such-or-such fiscal policies.

Price stability, which itself includes multiple factors, is our compass and has to be our compass. Let me give you an example which maybe will speak better to European friends, colleagues and compatriots. When I said recently that climate change was a matter that concerned and was particularly relevant to central banks, I had in mind our primary mandate of price stability because climate change has an impact on inflation dynamics, has an impact on productivity, has an impact on monetary transmission. The more uncertainty you have, the more externality is not factored in, the less certain you are. So it requires that the price stability mandate measured with reference to inflation decimals, as you just said, is also understood as embedding multiple other factors that probably speak more to European compatriots and friends.

I'd like to ask you about trade and to follow up with the video interview you gave to the *FT* last week, where you talked about expectations of how the pandemic could change trade in the longer term, have some lasting impact on globalisation. Could you expand on that and particularly this idea that some economies that are heavily reliant on trade and exports may need to change their business model?

Second question, if you permit me: could you also just look at whether the strategic review you could announce some findings as you go, or whether you're going to wait until the end of the process before you produce the results?

Lagarde: On the question of the impact of the pandemic on trade, I think there will be an almost mechanical impact. We are seeing it in a way with some of the results that are trickling in from Asia. Some of those countries that were relying significantly on trade are having to reconsider and are having to rely more heavily on their domestic market rather than on their exports. This is simply caused by the fact that, as the pandemic is moving in sequences and some countries are recovering faster than others, they have to – not retreat back behind their borders – but simply deal more internally because economies that used to be their clients and that addressed demand to them simply are not functioning at the moment. I think there is a mechanical impact, number one. I also think that there will be a cultural and sociological and maybe philosophical change that will result from the pandemic, which is very well described by some of your excellent journalists, in that proximity will matter, in that consumers will be more attentive to the origin of goods, to the place of manufacturing. Corporates themselves which had been largely dependent on faraway supply chains, or very complicated and fragmented supply chains, suddenly rediscover the benefit of proximity. So I think the combination of the mechanical impact and the sociological – let's call it that way – impact of the pandemic will indeed have an impact on trade.

On your second point, we have not at the Governing Council yet concluded as to how exactly we are going to communicate. We have a sort of cut-off date by which we will communicate the overall strategy review results. But it may well be that in the course of the strategy review, we decide to publish on a sequential basis. That has not yet been decided; it's being discussed. We will certainly let you know.

CONTACT

European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts